



FINANCIAL HIGHLIGHTS

	1971	1970
Revenues	\$9,411,821	\$4,241,253
Loss Before Extraordinary Income	(412,424)	(1,450,626)
Extraordinary Income	1,427,504	480,711
Net Income (Loss)	1,015,080	(969,915)
Shares Outstanding Dec. 31	2,569,877	2,209,278
Loss Per Share Before Extraordinary Income	\$(.17)	\$(.69)

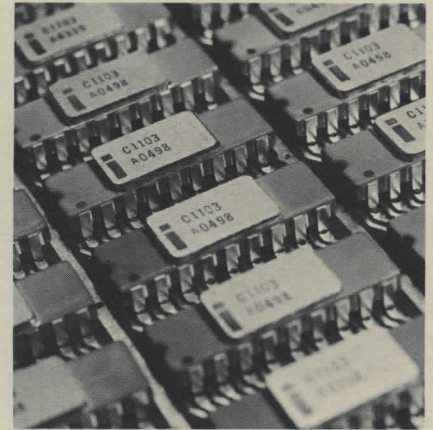
Nineteen seventy-one was an important year for the investors and employees of Intel. This was the year we became a publicly held corporation and the first year in which our income was greater than our expenses.



Despite a depressed computer market and softness in the prices of competing magnetic core memories, our 1971 revenues climbed to \$9,411,821 from \$4,241,253 in 1970. Net income in 1971 was \$1,015,080 compared with a loss of \$969,915 the previous year.

We moved into the black this year as a result of extraordinary income of \$1,427,504 from completion of a contract with Microsystems International Ltd. of Canada. The contract called for Intel to supply technical know-how to MIL for the manufacture of Silicon Gate MOS devices.

Our leadership in the semiconductor market continued last year in both dollar sales and technology. New sales offices were established in Paris and Tokyo. We found widespread acceptance for our 1103 MOS



memory circuit, a 1024-bit Random Access Memory (RAM) which was introduced in late 1970 and by late 1971 was an industry standard. These strong 1103 sales helped us capture an estimated 30% to 50% of the available semiconductor memory market.

In January 1971 we introduced the world's first non-destructively programmed Read Only Memory (ROM). This 2048-bit device, the 1601, is user-programmed by insertion of electrical charges into tiny Silicon Gate layers floating within the oxide layer. Where a charge is stored in one of the layers it causes the related transistor structure to read out as a binary "zero" with no diminution of the charge. Because of the great purity of the oxide layer the stored charge is effectively permanent in normal operations. Non-destructive programming makes the 1601 extremely reliable because it's functionally tested before shipment and it doesn't rely on blown metal interconnections.

In August we updated this device with the 1701, having the added advantage of being both erasable and re-programmable. This was another industry first.

We built new versions of several of our Bipolar memories last year, improving the performance of the circuits and lowering our manufacturing costs. Intel's continued emphasis on Bipolar devices, as well as MOS devices, allows us to take a systems viewpoint of the problems and requirements of our customers. Several Bipolar designs originated from specific customer needs for circuits peripheral to MOS memories.

Innovative design work by our engineers in 1970 and 1971 culminated with the introduction of the MCS-4, and MCS-8, which are microcomputers built around one-chip Central Processor Units (CPU's) selling for less than \$100 each. The low cost of the CPU's will allow them to move into hundreds of product areas which never before could justify the use of a general purpose computer. We anticipate the microprogrammed MCS-4 and

Early customer response indicates these computers will have wide use in such fields as communications, manufacturing, machine tooling, accounting, transportation and medicine.

Although the MCS-4 microcomputer can consist of as few as two DIP packages, we see most of the applications requiring a significant number of RAM, ROM and Shift Register (SR) devices to comprise an individual computer.

Our physical plant grew by 300% in 1971 with completion of our new 78,000 square foot Santa Clara headquarters. Substantial start-up costs were incurred, but the new facility allowed us to install improved new wafer fabrication and assembly areas while maintaining continuous production at our original Mountain View



plant. The new facility has modern work areas with clean rooms, controlled air flows and special fume, chemical and solvent waste disposal systems to greatly reduce air and water pollution. Installation



of automated mask drawing equipment reduces the time required to produce new circuit designs. Altogether we boosted production of Large Scale Integrated circuits (LSI) to 3½ times that of 1970. Our new facilities should be adequate for production demands through 1972.

Intel fields fastest RAM team

Four new Schottky bipolar memory devices team up to make semiconductor memory systems faster, simpler and less costly than ever before.

Krasner is Intel's 2101A, the fastest 64-bit bipolar RAM in the lineup. Address to output access time is 20 ns maximum. Chip select to output time is 17 ns maximum. Memory organization is handled by Intel's 2201, a 1-of-8 chip-select decoder. Eight 2201's can link 256 RAMs into a 128K-word system. Enable to output time for a 2201 is only 18 ns maximum.

Fast data transfer is provided by our 3404, a 6-bit register that grabs data coming out in 12 ns, and lets our RAM cycle of speeds approaching access time. Enable-to-output delay is 17 ns maximum—twice as fast as any other latch.

Speeding the system even more is the job of our 2104, a 16-bit, content addressable memory that designers can use to take time-saving short cuts. With a 25 ns maximum access time, it's twice as fast as any other CAM.

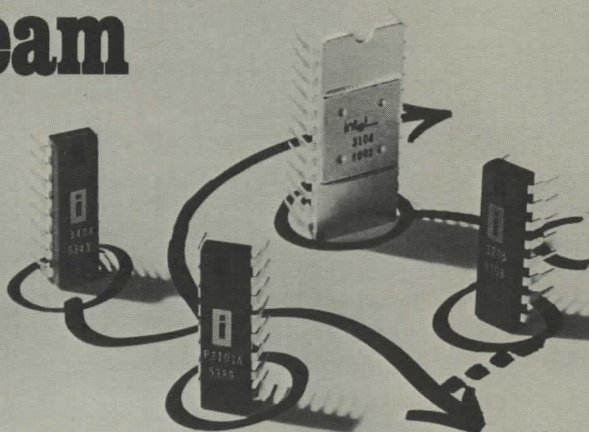
All four members of our team interface as though they were made for each other—which they were. And all interface directly with DTL and TTL logic.

All devices except the CAM are available in both plastic and ceramic packages. Prices in 100-piece quantities are:

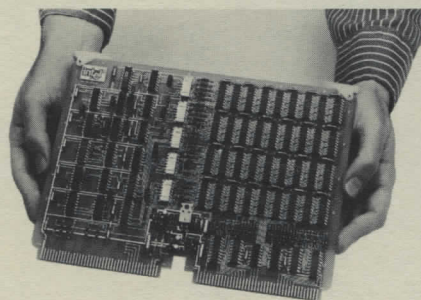
Type	Plastic	Ceramic
2101A RAM	\$8.40	\$11.20
2201, 1 of 8 decoder	\$4.35	\$5.40
2404, 8-bit register	\$4.35	\$5.40
3104 CAM	N/A	\$28.00

For immediate delivery call your local Intel distributor, Craine Electronics, Hamilton Electric Sales, Industrial Components, or Electronic Marketing. Intel Corporation is in high volume production at 305 Middlefield Road, Mountain View, Calif. 94045.

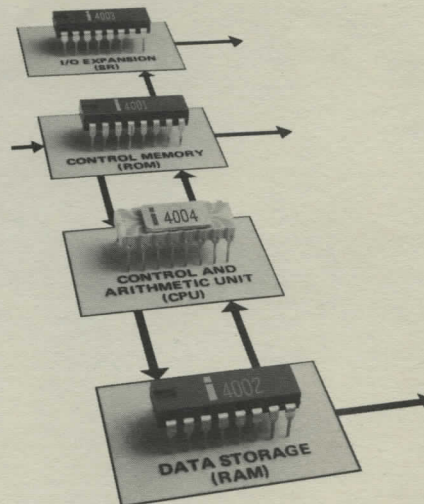
intel delivers.



To serve our customers and to enlarge the market for Intel products, we formed a separate group to build and sell memory circuit boards and memory systems. The first products from this operation have already been sold.



MCS-8 being used in dedicated applications where a small computer would be useful in a single piece of equipment, or as "intelligent elements" in larger distributed computer systems.



During 1971 we made a \$150,000 investment in Reticon Corporation in Mountain View, with an option to acquire control of the company. Reticon manufactures scanning optical arrays using Intel's Silicon Gate process. The sale of these arrays began in late 1971.

We are satisfied by our progress in manufacturing, marketing and technology, but disappointed in the slowdown of the computer market with its resultant softness of computer component prices.

In 1972 we expect the total semiconductor memory market to increase substantially, and for Intel to be in an excellent position to capitalize on the changeover within the computer industry from magnetic core memories to semiconductor memories. Because



of the widespread acceptance of semiconductor memories in 1971, this may be the first year in which our major competition will come from the other semiconductor suppliers rather than from core manufacturers.

We can look forward to a number of new developments in 1972. Our new Memory Systems Operation will be introducing and selling larger numbers of memory modules and memory systems, all using Intel parts. New N-channel devices will be introduced during the year which will give computers better performance with lower voltages and power consumption. These will cost us less to mass produce because more of them can be packed onto each silicon wafer.



A new 4096-bit MOS memory will be in production this year, allowing computer manufacturers to achieve even lower costs per bit of storage.

Our strategy will be to continue to develop advanced products for expanding markets as we continue to build capacity. In this way we will be able to retain a large share of our rapidly growing market.

At the same time we plan to use our strong financial position to profit from the continually changing demands of this explosive new business. At the close of 1971 our reserves of cash and bank deposits totaled \$7 million, over one-half of our net worth. We have the financial strength to continue to lead the memory business.

We expect considerably larger sales in 1972. Profitability will depend largely upon renewed vigor within the computer industry.

There are a number of reasons for our rapid growth, but the principal reasons are that we have been able to identify and develop technologies appropriate to growing markets, design new products in these areas, and then actually build and sell these advanced products at a profit.

This means we'll be keeping our slogan "Intel Delivers" in front of us in 1972.

Dr. Robert N. Noyce
President

Arthur Rock
Chairman of the Board

INTEL CORPORATION
CONSOLIDATED BALANCE SHEET
December 31, 1971 and 1970

ASSETS

	1971	1970
Current assets:		
Cash and cash equivalents	\$ 7,222,400	\$ 2,826,202
Accounts receivable, less allowance for doubtful accounts of \$47,988 in 1971 and \$44,423 in 1970	2,666,841	999,558
Inventories, at lower of cost (first-in, first-out) or market	913,926	239,782
Prepaid expenses	220,535	24,332
Total current assets	11,023,702	4,089,874
Investment, at cost (Note 2)	150,000	—
Property, plant and equipment, at cost (Note 9):		
Land and land improvements	890,206	844,979
Building and building improvements	2,615,766	2,004,684
Leasehold improvements	102,201	79,940
Machinery and equipment	182,555	17,264
	3,790,728	2,946,867
Less accumulated depreciation and amortization	177,854	32,062
Net property, plant and equipment	3,612,874	2,914,805
	<u>\$14,786,576</u>	<u>\$ 7,004,679</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 751,457	\$ 477,339
Deferred income on shipments to distributors (Note 3)	296,173	262,089
Royalties payable (Note 4)	73,518	92,558
Accrued liabilities, primarily payroll and related expenses	220,741	268,001
Taxes payable based on income	30,402	—
Current portion of long-term debt	—	188,838
Total current liabilities	1,372,291	1,288,825
8½% note payable, secured by land	—	377,678
Commitments (Note 9)		
Shareholders' equity (Notes 5 and 9):		
Capital stock, without par value, 3,500,000 shares authorized; shares issued and outstanding: 2,569,877 at December 31, 1971 and 2,209,278 at December 31, 1970; at stated value	15,728,047	8,667,018
Accumulated deficit	(2,313,762)	(3,328,842)
Total shareholders' equity	13,414,285	5,338,176
	<u>\$14,786,576</u>	<u>\$ 7,004,679</u>

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
Years ended December 31, 1971 and 1970

	1971	1970
Revenue:		
Sales	\$9,165,879	\$ 3,932,517
Interest	173,316	241,358
Royalties and other income	72,626	67,378
	<u>9,411,821</u>	<u>4,241,253</u>
Costs and expenses:		
Cost of sales	6,062,539	2,766,262
Research and development	1,529,452	1,297,450
Marketing, general and administrative	2,232,254	1,628,167
	<u>9,824,245</u>	<u>5,691,879</u>
Loss before extraordinary item	(412,424)	(1,450,626)
Extraordinary item — gain on sale of manufacturing know-how, net of California franchise tax of \$40,905 in 1971 (Note 6)	1,427,504	480,711
Net income (loss) (Note 7)	<u>\$1,015,080</u>	<u>\$ (969,915)</u>
Income (loss) per share (Note 8):		
Loss before extraordinary item	\$(.17)	\$(.69)
Extraordinary item	.60	.23
Net income (loss)	<u>\$.43</u>	<u>\$(.46)</u>

**CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION**
Years ended December 31, 1971 and 1970

Working capital provided from (used in) operations:		
Before extraordinary item —	\$ (412,424)	\$(1,450,626)
Add depreciation (straight-line) charged against income not involving working capital in the current period	145,791	20,037
	<u>(266,633)</u>	<u>(1,430,589)</u>
Extraordinary item — gain on sale of manufacturing know-how	1,427,504	480,711
	<u>1,160,871</u>	<u>(949,878)</u>
Other sources of working capital:		
Sales of capital stock	7,061,029	1,616,988
Increase in long-term debt	—	377,678
	<u>7,061,029</u>	<u>1,994,666</u>
Other uses of working capital:		
Additions to property and equipment	843,860	2,862,075
Decrease in long-term debt	377,678	—
Purchase of investment	150,000	—
	<u>1,371,538</u>	<u>2,862,075</u>
Increase (decrease) in working capital (Note 10)	<u>\$6,850,362</u>	<u>\$(1,817,287)</u>

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED STATEMENT OF
SHAREHOLDERS' EQUITY
Years ended December 31,
1971 and 1970

	Capital Stock		Accumulated Deficit	Total
	Number of Shares	Amount		
Balance at January 1, 1970	2,068,333	\$ 7,050,030	\$(2,358,927)	\$ 4,691,103
Sale of shares through private placement, net of related costs	104,285	1,449,612	—	1,449,612
Sales of shares through the employees' stock purchase plan and upon exercise of employee stock options (Note 5)	36,660	167,376	—	167,376
Loss for the year	—	—	(969,915)	(969,915)
Balance at December 31, 1970	2,209,278	8,667,018	(3,328,842)	5,338,176
Sales of shares through private placement, net of related costs	15,790	219,560	—	219,560
Sales of shares through the employees' stock purchase plan and upon exercise of employee stock options (Note 5)	37,337	195,207	—	195,207
Sale of shares through public offering, net of related costs	307,472	6,646,262	—	6,646,262
Net income for the year	—	—	1,015,080	1,015,080
Balance at December 31, 1971 (Notes 5 and 9)	<u>2,569,877</u>	<u>\$15,728,047</u>	<u>\$(2,313,762)</u>	<u>\$13,414,285</u>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1971 and 1970

1. Basis of presentation

The consolidated financial statements include the accounts of Intel's newly formed subsidiaries, none of which had significant operations during 1971.

2. Investment

In June 1971, Intel acquired (for \$150,000) convertible preferred stock which, if converted, would represent a minority common stock interest (26%) in a newly formed company, and has an option to acquire a controlling interest in exchange for Intel Capital Stock on the basis of one share of Intel for fourteen shares of the newly formed company. This company is presently in the development stage, and, in the opinion of management, there has been no impairment in the value of this investment at December 31, 1971.

3. Deferred income on shipments to distributors

Certain of Intel's sales are made to distributors under agreements allowing right of return and price protection on merchandise unsold by the distributors. Because of the rapid technological obsolescence in the industry, Intel defers recognition of sales and profits on shipments to distributors until the merchandise is sold by the distributors.

4. Royalties

Intel expects, from time to time, to utilize products and processes of others and may be required to obtain licenses and pay royalties for such utilization. Accordingly, Intel provides currently a reserve (based upon a percentage of sales) for royalties under cross-license agreements, including those which Intel expects it may enter into on the basis that royalties will apply retroactively to sales by Intel prior to the dates of the agreements. In the opinion of management, the reserve being provided is sufficient to cover Intel's liability under all such possible cross-license agreements.

5. Stock Options and Employee Stock Purchase Plans

(a) Qualified Stock Option Plan

Under this plan, officers and key employees have been granted options to purchase shares of Intel's authorized but unissued Capital Stock at the fair value at date of grant. Unless otherwise provided at the time of grant, options become exercisable at the rate of 25% per year commencing one year from the date of grant. Options for 275,000 shares may be granted under the plan as amended.

Additional information with respect to this plan is as follows:

	Options Available For Grant	Number	Outstanding Options	
			Aggregate Value	Price Per Share
Balance at December 31, 1970	9,953	115,963	\$ 695,600	\$ 2.86-\$14.00
Additional shares reserved for granting under the plan	100,000	—	—	—
Options granted	(77,300)	77,300	1,078,200	\$12.00-\$14.00
Options cancelled	14,088	(14,088)	(83,110)	\$ 2.86-\$14.00
Options exercised	—	(32,196)	(122,390)	\$ 2.86-\$14.00
Balance at December 31, 1971	46,741	146,979	\$1,568,300	\$ 2.86-\$14.00
Options exercisable at December 31, 1971		21,492	\$ 179,931	\$ 2.86-\$14.00

During 1971, 137 shares originally issued upon the exercise of options were repurchased as provided in the plan for \$1,918.

(b) Employee Stock Purchase Plan

In 1971 Intel terminated an Employee Stock Purchase Plan which was authorized in 1969. A total of 5,278 shares, net of repurchases, were purchased in 1971 under this plan for an aggregate consideration of \$74,735.

(c) Non-Qualified Stock Option Plan

In December 1971 the board of directors approved adoption of a Non-Qualified Stock Option Plan for officers and key employees, subject to approval by the shareholders, and has reserved 100,000 shares of Capital Stock for issuance under the plan. The option price is to be the fair market value of the stock on the date of grant, and the options become exercisable as determined by the board of directors. Subject to approval of the plan by the shareholders, options to purchase 69,500 shares at \$15.75 per share have been granted to employees through December 31, 1971. None of these options become exercisable prior to 1973.

(d) Employee Stock Participation Plan

The board of directors has approved an Employee Stock Participation Plan, subject to the approval of the shareholders. The plan is to be in the form of a stock purchase plan with the purchase price to be 85% of the fair market value of the stock at certain specified dates. No shares have been reserved for this plan at December 31, 1971.

6. Extraordinary gain

During 1970, Intel agreed to furnish a Canadian manufacturer with certain of its manufacturing process know-how and to provide related technical assistance and information through December 31, 1972. Nonrefundable payments of \$500,000 were received in the year ended December 31, 1970, and the gain, net of related expenses, was reported as an extraordinary item in that year. Certain additional payments were contingent upon the achieving of specified product yields by the Canadian manufacturer. That portion of the gain, net of related expenses, attributable to the consideration received pertaining to this contingency has been reported as an extraordinary item in the year ended December 31, 1971, during which period the yields were achieved. No federal income tax has been provided on these extraordinary items due to the utilization of net operating loss carryforwards.

Under the agreement, Intel will also receive royalties on the manufacturer's future net sales through 1972.

7. Income taxes

Through 1970, Intel incurred net operating losses for federal income tax purposes of approximately \$3,052,000, of which \$1,080,000 has been used to reduce 1971 taxable income. Of the remaining carryforward, \$1,219,000 will expire in 1974 and \$753,000 in 1975. Because of certain timing differences, the accumulated loss for financial reporting purposes through December 31, 1971 is greater than the net operating loss carryforward.

8. Per share information

Per share information in 1971 is based upon the weighted average number of capital and capital equivalent shares outstanding during the year. Capital equivalent shares consist of the shares issuable upon the exercise of outstanding stock options computed on the treasury-stock method. Per share information for 1970 is based upon the weighted average number of capital shares outstanding; capital equivalent shares were not included in this calculation as they were anti-dilutive.

9. Commitments

Intel leases a substantial portion of its capital equipment for periods from four to eight years. Under equipment leases entered into through December 31, 1971, Intel is obligated to pay rentals in the following approximate amounts: 1972 — \$694,000, 1973 — \$623,000, 1974 — \$475,000, 1975 — \$351,000 and immaterial amounts thereafter.

Orders have been placed for additional equipment to be leased subsequent to 1971, which will require total rental payments aggregating approximately \$316,000 payable over periods of from four to six years. Rent for each piece of equipment will begin at time of delivery and acceptance.

Part of Intel's manufacturing facilities is leased. Under the lease, which expires in 1974, Intel is obligated to pay rentals amounting to approximately \$50,000 per year.

Intel has a commitment for long-term financing of its new office and plant facility. The commitment, which expires December 1, 1972, is for a loan of \$2,100,000 at 8-3/4% for 30 years. If the loan is taken out there will be a \$15,000 service charge and Intel will issue up to a maximum of 7,000 warrants, each of which entitles the holder to buy one share of Capital Stock of Intel at \$14. If the commitment expires Intel will forfeit \$42,000 already paid or committed in the form of a commitment-standby fee, which is refundable only in the event the loan is taken out. Fees advanced, amounting to \$21,000, are carried in prepaid expenses.

10. Changes in the components of working capital

	Years ended December 31,	
	1971	1970
Current assets—increase (decrease):		
Cash and cash equivalents	\$4,396,198	\$(1,821,809)
Accounts receivable	1,667,283	762,653
Inventories	674,144	48,368
Prepaid expenses	196,203	4,660
Total increase (decrease)	6,933,828	(1,006,128)
Current liabilities—increase (decrease):		
Accounts payable	274,118	170,012
Deferred income on shipments to distributors	34,084	222,592
Royalties payable	(19,040)	84,374
Accrued liabilities, primarily payroll and related benefits	(47,260)	145,343
Taxes payable based on income	30,402	—
Long-term debt due within one year	(188,838)	188,838
Total increase (decrease)	83,466	811,159
Increase (decrease) in working capital	<u>\$6,850,362</u>	<u>\$(1,817,287)</u>

ACCOUNTANTS' OPINION

The Board of Directors and Shareholders
Intel Corporation

We have examined the accompanying consolidated balance sheet of Intel Corporation at December 31, 1971 and the related consolidated statements of operations, shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Intel Corporation at December 31, 1971 and 1970, the consolidated results of operations and the consolidated changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY
San Jose, California
January 24, 1971

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